Report & Accounts 2013

Leek United
BUILDING SOCIETY
The friendlier face of finance

Contents

Member of the Building Societies Association
Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority

Established 1863

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Registered Number 323B

Leek United BUILDING SOCIETY

Directors and Officers

Richard Goddard, Keith Griffiths, Peter Kerns, Derek Lyons, Ann O'Connell, Jim Washington, Kevin Wilson

DIRECTORS	Richard Goddard MA, FCA Keith Griffiths BSc (Econ), FCA Peter Kerns Derek Lyons MCISI Ann O'Connell BSc (Mgm), ACMA, MCT Jim Washington ACIB Kevin Wilson
CHAIRMAN	Peter Kerns
CHIEF EXECUTIVE	Kevin Wilson
FINANCE DIRECTOR	Keith Griffiths BSc (Econ), FCA
INTERNAL AUDITOR	Ian Boston
BANKERS	HSBC Santander
INDEPENDENT AUDITORS	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 101 Barbirolli Square Lower Mosley Street Manchester M2 3PW

Chairman's Statement

In my first year as Chairman of the Leek United Building Society I am delighted to report that the Society is flourishing and that, during its landmark 150th anniversary year, it has achieved strong asset growth and good profitability whilst maintaining a robust capital position. 2013 has, therefore, been an extremely successful year, with much to celebrate, thanks to the dedication and efforts of staff throughout the Society, who have all made a significant contribution, not only in terms of the financial results, and meeting our members needs, but also in the considerable amounts raised for local charities.

The past twelve months have, like so many before them in recent years, been challenging, both within the wider economy and, more specifically, within the financial services industry. Interest rates remain at historically low levels and are expected to continue to do so for the immediate future. Global markets remain volatile with numerous downside risks particularly as Governments seek to remove the liquidity provided to markets during the financial crisis. However, unlike previous years, the housing market is showing signs of improvement in parts of the country, and the economy looks set to return to gradual recovery. Mortgage competition remains fierce, further banking scandals have emerged, and the impact of increasing regulatory demands and requirements are exerting considerable and growing cost pressures across the industry.

Despite this mixed set of conditions, the Society has delivered an excellent financial performance in 2013, with 5.6% growth in the balance sheet, and the generation of a satisfactory level of profits which is key to the continued robust capital position, since profit is the principal means by which the Society can maintain its capital strength. This profitability has not been achieved at the expense of members, but rather in harmony with their needs, in accordance with the Society's vision to be the best regional independent building society in the UK through the provision of high quality, competitive products and outstanding customer service.

2013 has seen exceptional demand for Leek United mortgage products, with growth in new lending and mortgage balances of 34.3% and 8.7% respectively. Growth in mortgages has not, however, been achieved by lending beyond the borrower's ability to pay; affordability remains a cornerstone of the Society's lending policy. We have also been delighted to welcome significant savings inflows during the year, as existing and new customers continue to support the Society. It is pleasing to note that the Society was awarded a top rating by 'Move your Money', measured on five key categories, being honesty, customer service, culture, supporting the economy and ethics.

Uttoxeter branch have raised funds for the local First Responders for 14 years

This significant growth in savings reflects, in part, widespread disenchantment with competitor organisations, with customers turning to Leek United because of our reputation as a safe, secure home for their money, and our provision of the very best personal service and straightforward, competitive, well designed products. Our success provides a vindication of the traditional building society model as a competitive alternative to the plc banks, and reflects a genuine partnership between local communities and the building societies by which they are served. The Chief Executive's Business Review provides more details of this excellent performance.

The Society's approach is echoed in the findings of a national report from the Building Societies Association, and endorsed by the Secretary of State for Business, Innovation and Skills, which outlines the higher customer satisfaction ratings enjoyed by building societies, and their commitment to maintaining local branches. The report highlights that building societies, along with other mutuals, remain principally consumer-owned and community-focussed, with a long-term and responsible approach essential to rebuilding trust in the UK-wide financial services industry.

During 2013, our Derby Street branch staff supported Cardiac Risk in the Young (CRY), raising awareness of conditions that can lead to sudden death

Leek United teamed up with Leek High School to help 6th form students with their studies in Information and Communication Technology

The Financial Services Compensation Scheme continues to place a disproportionate burden on building societies. Our share for 2013 rose to £0.5m (2012: £0.3m).

The Society will continue to play to its strengths, retain our sense of momentum and remain true to our members and core values in the months and years ahead, and I remain extremely positive about the future for your Society and the part that it will play in supporting our membership and community.

I must also take this opportunity to thank Paul Marriott, who retired as Chairman at the AGM in April 2013, for his outstanding contribution to the Society. Paul provided invaluable stewardship and unstinting dedication to the business during his nineteen years of service, first as a non-executive director and then as Chairman, and leaves the Society in an extremely robust position. He is greatly missed by the Society, its staff and board, and we wish him a long and enjoyable retirement.

I was honoured to have been asked to become Chairman of the Society following the AGM in April 2013 and am committed to maintaining the values which have served the Society and its members so well to date.

Finally I thank the staff and management for their unstinting efforts in ensuring the success of the Society in 2013 and for their commitment to our values. My thanks also go to the members for their continued support of the Society.

Affinity Account Donation to the County Air Ambulance Trust

Peter Kerns
Chairman
26 February 2014

Chief Executive's Business Review

Group profit before tax and FSCS levy	£4.76m
Group reserves	£54.7m
Group assets	£853.4m

Overview

I am delighted to report that the past twelve months have proved to be extremely positive for the Society, with a strong set of results delivered in this, our milestone 150th anniversary year. This is a reflection of the fundamental strength of our business model and values and the continued drive within the Society to meet the needs of our members and the challenges of the current economic situation.

In the context of continued low interest rates, the Society's results comprise a particularly resilient and satisfying performance.

Total assets have grown by 5.6%, reflecting strong mortgage lending of £138.9m. We have ensured the preservation of our strong capital position, with a prudent core tier 1 ratio of 19.2%, as continued protection of our members' interests against future risks and uncertainties. This can only be accomplished as the result of sustained profitability, and 2013 saw a solid profit before tax and FSCS levy of £4.76m.

Group Financial Performance

Profit before tax and FSCS levy - £4.76m (2012: £3.44m)

Profit after tax - £3.21m (2012: £2.27m)

Total assets - £853.4m (2012: £808.4m)

Reserves - £54.70m (2012: £53.69m)

Management expenses ratio - 0.84% (2012: 0.82%)

Our other key financial ratios including liquidity, gross capital and free capital complete a strong financial performance.

Mortgage Lending

2013 saw an 8.7% increase in our mortgage balances, from £620m to £674m. I am delighted to report that this was as a result of significant lending during the year, with gross mortgage lending up considerably to £139m, from £103m in 2012. While this in part reflects the beginnings of the housing market recovery experienced nationally, it far outstrips the average growth in mortgage lending across the industry and reflects our dedication to prospective purchasers as well as our commitment to existing customers.

We recognise and reward the loyalty of our customers through reduced fees and have continued to offer an attractive variety of fixed rate, variable rate and discounted mortgage products tailored to members' requirements.

This sustainable growth has been achieved even as our cautious approach to lending has been maintained. The Society's lending policy continues to be governed by affordability and we will neither encourage, nor allow, anyone to borrow beyond their means. As a result, our mortgage book remains extremely high quality, with a level of mortgage arrears among the lowest in the industry. The number of accounts in arrears greater than 2.5% of the mortgage balance was just 38 (2012: 26), representing 0.15% of total mortgage account balances (2012: 0.09%), compared to the industry average of 1.29% (source: Council of Mortgage Lenders).

Only one property was taken into possession during the year and no mortgage losses were incurred in 2013. Of the 2,054 mortgages completed since the start of 2011 and held at 31 December 2013, there were no accounts over three months in arrears.

During 2013, the housing market recovered to some extent, supported by a stronger jobs market, the Government's Help to Buy scheme, and greater mortgage availability, with concerns over double- or triple-dip recessions reducing. Higher loan-to-value mortgage products are returning to the market as competition for business increases, fuelled by rising property prices (not matched by rising earnings) and as a result of the Help to Buy scheme. Opinions remain mixed as to whether a property boom is developing, but the consensus appears to be that there is still some way to go however before the housing market returns to pre-credit crunch levels.

Active support to our local area remains a key strategic objective for our business, as exemplified by the Leek United's Local Authority Mortgage Guarantee Scheme with Staffordshire Moorlands District Council.

Leek United
BUILDING SOCIETY

Representatives from 18 nominated charities were presented with a total of £37,249.82, raised by Leek United staff during 150th Anniversary Year

With the implementation of the Mortgage Market Review in April 2014, the new rules will put affordability at the heart of the mortgage market. Our prudent and responsible approach to lending will be reinforced by these new regulatory rules for affordability. A more rigorous 'stress test' on income and expenditure will be evident in ensuring only those applicants who have the financial capability of maintaining their mortgage payments even in a higher rate environment will be accepted.

Savings

The environment for savers continues to be extremely difficult, due to the prevailing low interest rate environment and the impact of the Funding for Lending scheme on average deposit rates.

Despite these conditions, during 2013 our Society welcomed significant inflows of savings balances. Although this was in part due to dissatisfaction and uncertainty regarding competitor organisations, it also reflects the strength of our proposition and our reputation as a safe and secure haven for our members' savings. This echoed the findings of the nationwide independent 'Move your Money' survey in October 2013 which ranked Leek United Building Society as one of the UK's best places to transfer your savings to. We have maintained competitive rates for our existing customers, together with a comprehensive range of products, including bonds, business accounts and ISAs.

Savings inflows of £51.5m were recorded in 2013 (2012: £15.7m) leading to growth in shares and deposits balances to £796.3m from £751.2m in 2012.

Our staff and members

The feedback that I received at our 2 Member Forums during 2013, as well as daily insight through visits to branches or written feedback from our members, continues to impress upon me the excellent customer service offered by our people, of which I am extremely proud. Within our Society we seek to deliver consistently high standards of service, and customer satisfaction remains a fundamental objective for the Society, reflected in our values and in our approach to meeting conduct risk requirements.

We have introduced a set of 'satisfaction' measures contained within our Pride in Performance initiative which we will use to record the progress of our customer service objectives and to validate our treating customers fairly commitments. These include the customer satisfaction ratio and the number of upheld complaints.

We have also remained committed to raising funds for local and national charities; in recognition of our 150th anniversary year, each of our twelve branches, together with Head Office departments, selected a particular cause and dedicated a huge amount of time and effort to raising considerable funds over the twelve months via a range of activities including raffles, race nights, sponsored walks and cycle relays. As a result over £37,000 was raised in total, for 18 charities, both at a national level and within the local area.

2013 saw the retirement as Chairman of Paul Marriott, after nineteen years of service. I would like to reiterate my thanks to Paul for his dedication and exceptional contribution to the business and to wish him well for his retirement. Peter Kerns was elected as Chairman following the Society's 150th Annual General Meeting in April, having joined the board as a non-executive director in 2009. He is an experienced solicitor with exposure to a wide range of commercial and regulatory issues.

Outlook

The improvement in the UK economy that began in 2013 looks likely to continue into 2014 and beyond, with growth in the manufacturing and services sectors, increasing levels of employment and a gradual improvement in business confidence. It is, however, too soon to be sure of a return to pre-crisis levels of balanced and sustained growth, as living standards remain under pressure (due to a lack of wage growth) and with continued weakness in the Eurozone.

More than ever, the Board believe that the traditional building society model is required as an essential component of the future of financial services in the UK and an alternative to the major high street banks for those members seeking peace of mind and excellent service.

We began our 150th year in strong financial shape and end the year in an even stronger position. My thanks go to our members and staff for this success, and I look forward to building on this platform for growth in 2014 and beyond.

Kevin Wilson
Chief Executive
26 February 2014

Strategic Report

STRATEGY

Our strategy is set out below.

Vision

- To be recognised as the best regional independent building society in the UK.
- We aim to be the local society of choice for new and existing members - respected, trusted and renowned for our exceptional customer service.
- Our member proposition will contain the values and traditional business ethos of a member owned society combined with the enthusiasm and resolve of a dynamic contemporary forward thinking society fit for the future.
- Leek United will be widely acknowledged as a great place to work where all staff are encouraged to achieve their maximum potential.
- We are committed to the benefits of mutuality and will seek to maximise these for our members.

Mission statement

It is our mission to excel in meeting the financial needs of our members by providing high quality, competitive products and outstanding customer service.

Our values

The Society believes that a clear and succinct statement of beliefs and values is a vital part of defining the corporate culture of our organisation. This cultural message is seen as the foundation upon which policy, staff attitude, management approach and most importantly good customer outcomes rest.

Core values and beliefs

- We are honest, straightforward and easy to do business with.
- Our customers are people, not numbers.

Our customers deserve and get

- Simple, straightforward and well designed products.
- Clear information at all times.
- Professional advice based upon what they need.
- The very best personal service.
- Help: when we get it wrong, we will put it right.

We must earn and retain our customers' trust and demonstrate our integrity.

BUSINESS MODEL

The Society's primary objective is the provision of mortgage finance for the purchase and improvement of residential property. The funding of this finance is achieved predominantly through the Society's range of personal savings accounts.

In addition, the Society provides an extensive range of services such as general insurance, life insurance and long term investments, through a number of business partners.

These activities are undertaken via twelve branches across four counties, together with a number of agencies.

As a building society and a mutual, Leek United does not seek to maximise profits at the expense of members, but rather to deliver a level of profitability sufficient to balance member value with the need to protect our capital position and so ensure that member confidence remains high.

REVIEW OF THE BUSINESS

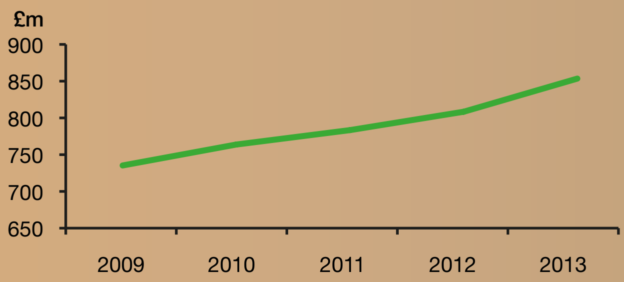
The financial performance of the Society in 2013 has been extremely satisfactory. The Society uses various performance indicators to monitor its progress; a number of key indicators are included within the review of the business below, with definitions at the end of this section.

Leek United
BUILDING SOCIETY

Staff undertook a three-day, 150-mile charity bike ride, visiting each of the Society's branches en route.

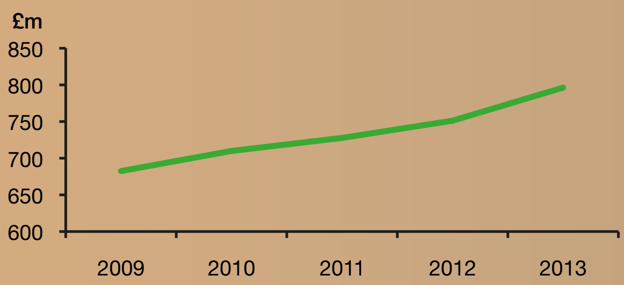
Leek Derby Street branch launching their Snowdon trek to raise funds for Cardic Risk in the Young

Total assets (£m)



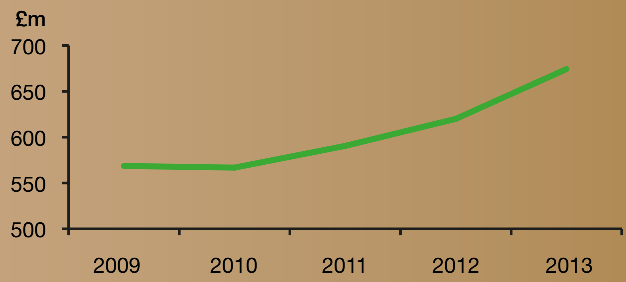
Total assets have increased by 5.6% from £808.4m in 2012 to £853.4m, in 2013. This was largely due to significant savings inflows used to support considerably higher levels of mortgage lending during the year.

Shares and deposits (£m)



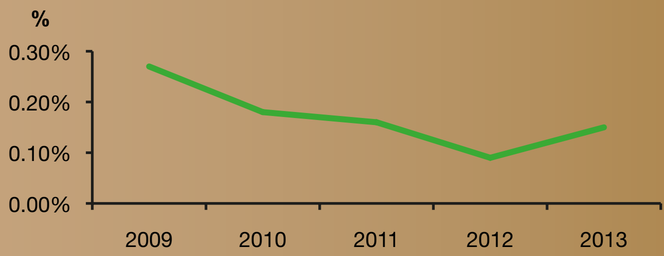
Shares and deposits increased from £751.2m at the end of 2012 to £796.3m at the end of 2013, a growth rate of 6.0%. Inflows of £51.5m were recorded during the year. We have maintained our balanced retail product portfolio throughout 2013 in an attempt to support savings members at a time when many are facing reductions in disposable income.

Mortgage balances (£m)



Gross lending during 2013 stood at £138.9m, 34.3% higher than lending of £103.4m during 2012. This led to overall growth in mortgage balances of 8.7%, increasing from £620.0m at the end of 2012, to £674.3m at the end of 2013.

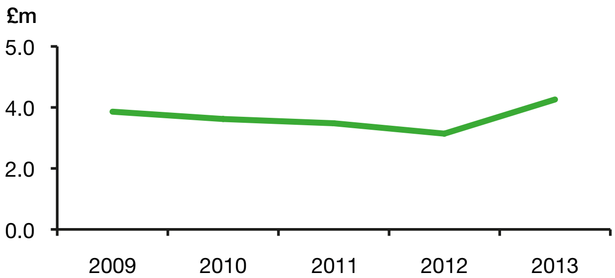
Mortgage arears > 2.5% of balances



The increase in mortgage lending noted above was achieved without any relaxation of our prudent and cautious approach, such that our levels of arrears remain extremely low. Of the total number of mortgage accounts, only 38 were in arrears greater than 2.5% of the mortgage balance at the year end (2012: 26), representing 0.15% of balances (2012: 0.09%). This compares extremely favourably with the average of 1.29% for the industry (source: Council of Mortgage Lenders). At 31 December 2013 there were 2 (2012: 3) mortgage accounts which were twelve months or more in arrears. The total amount of these arrears was £1,080 (2012: £8,573). The total number of accounts in arrears at the end of 2013 was 113 (2012: 133).

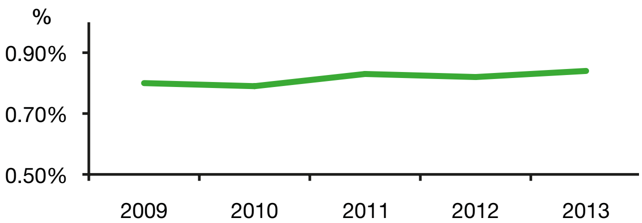
Strategic Report (continued)

Profit before tax (£m)



The generation of an appropriate level of profit as the principal means available to the Society of building a sustainable and robust capital position is paramount for the Directors in protecting the interests of members. As a result of the strong performance on lending and savings inflows, pre-tax profit rose from £3.14m in 2012 to £4.26m in 2013. This reflected a strengthening of margins for the Society during 2013, leading to an increase in net interest receivable, up from £8.5m to £10.3m. Other income, at £1.4m remained broadly stable against 2012 (£1.5m).

Management expense ratio (%)

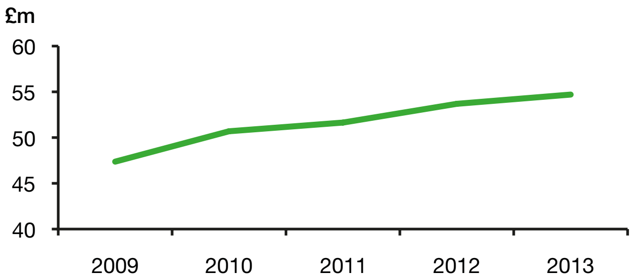


As a member focussed institution, efficiency is one of our key areas of focus and, at 0.84%, the management expenses ratio increased only very slightly from 2012 (0.82%). This was despite the increasing cost of regulatory requirements and the incremental expense required to maintain and develop appropriate levels of risk management. This ensures that the protection of members' interests is maintained.

The income statement benefited from a credit of £232,000 during the year (2012: credit of £146,000) comprising amounts recovered in respect of loans previously written off and a release from the general loss provision. The FSCS levy continues to reflect an additional cost burden on the Society, with an increase in the charge from £0.3m in 2012 to £0.5m in 2013.

The Society operates a defined benefit pension scheme which closed to new members from 25 April 2001 and existing members' future accrual in 2013. The scheme moved to an accounting surplus at 31 December 2013 of £3.85m from a deficit at 31 December 2012 due to a combination of employer contributions and actuarial gains. Accounting regulations do not permit the recognition of a surplus in the pension scheme when it is irrecoverable by the Society. This led to an overall actuarial loss, net of tax, of £2.20m within the Statement of Total Recognised Gains and Losses (2012: £0.22m).

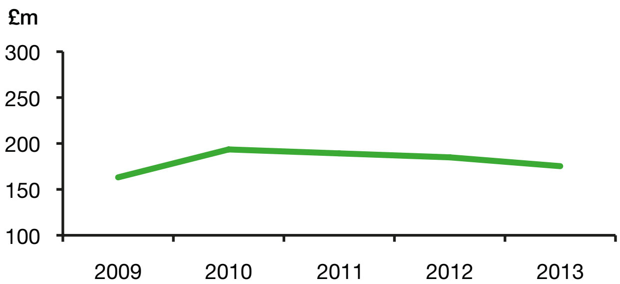
Gross capital (£m)



The satisfactory level of profits for 2013 ensured that the Society was able to maintain a strong capital position. Gross capital stood at £54.7m at 31 December 2013 (2012: £53.7m), but included the impact of the actuarial loss on the pension scheme noted above. The ratio of gross capital as a percentage of total shares and borrowings was 6.87% at 31 December 2013 (2012: 7.15%) and the ratio of free capital as a percentage of total shares and borrowings was 6.67% (2012: 6.93%). Free capital is the general reserve, revaluation reserve and general loss provisions less fixed assets.

The core tier 1 ratio stood at 19.2% at the end of 2013 (2012: 19.6%).

Liquid assets (£m)



Due to the significant levels of savings inflows during the year, the Society continues to enjoy a strong liquidity position. There has been a deliberate and managed reduction in the levels of liquid assets during the year from an extremely high opening position. Liquid assets, in the form of cash and securities, totalled £175.3m (2012: £184.9m) representing 22.02% (2012: 24.61%) of shares and borrowings. The amount of liquidity repayable on demand is £110.2m (2012: £94.4m).

Leek United staff v Port Vale FC Supporter's Club charity football match in aid of Approach (helping people with dementia and mental health needs)

Leek United BUILDING SOCIETY

Cheque presentation to the Neurology Department at University Hospital North Staffordshire by our head office Mortgage Applications Department

KEY PERFORMANCE INDICATORS

Total Assets

Definition The value of all the assets held as set out in the group balance sheet.

Shares and deposits

Definition The total amount owed by the Society to shareholding members and depositors in respect of their account balances.

Gross lending

Definition The total value of all mortgage advances made in the financial year.

Arrears

Definition The number of mortgage accounts on which there is an amount of arrears which exceeds 2.5% of the mortgage balance. This number is expressed as a percentage of total mortgage accounts.

Profit before tax

Definition The surplus achieved on trading activity in the financial period before tax.

Management expenses ratio

Definition The aggregate of administrative expenses and depreciation as a percentage of the average total assets in the year.

Gross capital

Definition The sum of the general reserve, and the revaluation reserve, as shown in the balance sheet.

Liquid assets

Definition The total of cash in hand, loans and advances to credit institutions and debt securities.

TRENDS AND FACTORS LIKELY TO AFFECT FUTURE DEVELOPMENT, PERFORMANCE AND POSITION

The economic outlook presents a mixed picture. The recent recovery in GDP, reflecting increased consumer spending and an improvement in the housing market, is in danger of faltering without a sustained improvement in UK business investment and productivity. Inflation is expected to remain under control within the short to medium term but interest rates are not anticipated to rise imminently. Recent increases in house prices are expected to continue although not all areas of the country are expected to experience significant growth in property values.

The level of change within the financial services industry is not expected to abate. The competitor banks are unlikely to be in a position to rebuild trust over the short-term, leaving the more traditional building societies well placed to welcome new members. Technological developments, and the move towards online sales and servicing, are anticipated to increase, and we will continue to monitor this trend to ensure we meet the needs of our members. Over the medium term, the industry is expected to become more competitive, due in part to the recent relaxation of the banking licence application process. Within the mortgage market, average loans are likely to increase due to increasing property values.

The impact of increasing regulatory requirements will continue to place pressure on costs. Over the short to medium term, the requirement to build capital via strong profits and asset growth will be of paramount importance as the impact of the Capital Requirements Directive, together with a range of other impending regulatory requirements, is felt across the industry.

Strategic Report (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

The Risk Strategy for the Society is based around its core mutual values resulting in a low risk culture focused on the needs and outcomes of our customers as well as the appropriate financial outcomes for the Society. As a building society, our principal business is the production and distribution of financial products and, in particular, mortgages and deposit-based savings accounts. Regulated investment products are supplied by the group via our subsidiary, Leek United Financial Services Limited (acting as agent for the Society). The group uses wholesale financial instruments in the management of its balance sheet, investing funds held as liquidity and raising wholesale funding. We also make use of instruments in the financial markets to manage our interest rate risk and this entails the use of derivative financial instruments. The derivatives are used solely for this purpose and are not used for trading activity or for speculative purposes.

During 2013 the Society initiated a period of transition regarding risk management, as part of a strategy to strengthen further the control of risks thus ensuring the risk averse stance is maintained.

The governance structure at the start of the year comprised the Audit and Risk Committee (a board sub-committee) and the Risk Management Committee (an executive management committee), overseeing a risk management process embedded in the Society and identifying the key risks facing the business. The Audit and Risk Committee's role was to assure the Board that risks were being managed in accordance with policy and within the limits of the Board's stated risk appetite. The Risk Management Committee's main responsibility was to assess the management of operational risk across the group. Operational responsibility for market, liquidity and wholesale counterparties credit risk was delegated to the Asset and Liability Committee (a Board sub-committee) and responsibility for mortgage lending risk to the Lending Committee (a committee made up of executive directors and senior managers).

The Board own and approve the risk appetite for the Society and, during 2013, approved a new Risk Management Framework. The Framework identifies the revised processes, ownership, responsibilities and the risk oversight required to support effective implementation across the Society.

During this period of transition, the Society is strengthening its 'three lines of defence' governance model to ensure appropriate responsibility is allocated to the management, reporting and escalation of risks. The Business Areas provide the first line of defence which includes compliance (with policies, risk appetite and limits), stress testing, self assessment and development of risk registers. The Risk and Compliance functions comprise the second line of defence, developing the Risk Framework and undertaking risk monitoring, challenge and oversight. Internal Audit act as the third line of defence, independently challenging the overall management of the Framework and providing assurance to the Audit Committee and Executive on the adequacy of both the first and second lines.

Under the new Risk Management Framework, the Board established the Board Risk Committee (BRC), a Board sub-committee, to advise the Board on the Risk Management Framework and to oversee the design, quality and effectiveness of the Framework. The BRC, in co-operation with the Board Audit Committee, monitor identified risk control failings and weaknesses and actions taken to resolve them.

The BRC is now supported by the Management Risk Committee (MRC) and the Assets and Liabilities Committee (ALCO). The responsibilities of the MRC include ensuring the detailed application of the Framework and the development of key risk policies and indicators. The ALCO supervises the Group's treasury and financial risk management activities. The ALCO advises and supports the Finance Director in carrying out his responsibilities, including the identification, management and control of the balance sheet risks and the overview and monitoring of relevant risk control frameworks.

The Board also established the Board Audit Committee (BAC), a Board sub-committee, to assist the Board in carrying out its responsibilities relating to internal control and to exercise oversight of identified risk control failings and weaknesses as well as management actions taken to resolve them.

Charity Golf Day, raising funds for Help for Heroes

2013 AGM Cheque Presentation to Douglas Macmillan

The eight principal risks are shown below. Each is underpinned by a set of controls which reduce the inherent risk to an acceptable residual risk level.

Credit risk	The risk of losses arising from a debtor's failure to meet their legal and contractual obligations.	Credit risk in relation to retail customers is governed by limits contained in our Board-approved responsible lending policy. Exposure to wholesale counterparty risk is controlled within limits set within the Treasury Credit Policy.
Strategic risk	Strategic risk is the risk of losses as a result of strategic/management decisions or business choices (as distinct from those which occur as the result of breaches of rules or regulations or triggered by legal issues).	This is actively managed through the Asset and Liability Committee and with overall control provided by the Board.
Market risk	Market risk is the risk of losses arising from changes in market rates or prices.	We manage this risk, which includes basis risk, on a continuing basis, operating to risk appetite and using on and off balance sheet instruments. The Asset and Liability Committee regularly reviews, manages and controls the balance sheet exposures of the Society.
Liquidity risk	Liquidity risk is the risk that the Society is unable to meet its financial obligations as they become due, resulting in an inability to support normal business activity and/or failure to meet liquidity regulatory requirements.	Stress tests are undertaken to measure the Society's ability to meet adverse cash flows on a regular basis. This activity is overseen by the Asset and Liability Committee.
Reputation and conduct risk	Reputation and conduct risk is the risk that the perception of the Society is damaged in the eyes of key stakeholders (e.g. members, regulators, colleagues). In the case of customers this is the risk that we are unable to demonstrate that we are putting the customer's interest at the very heart of the business.	Conduct risk is linked to the core values of the Society and is actively overseen by the Board Risk Committee.
Regulatory and legal risk	Regulatory and legal risk is the risk of fines, public censure, limitation on business, or restitution costs arising from failing to understand, interpret, implement and comply with UK and EU regulatory requirements.	This is actively overseen through the Board Risk Committee.
Pension risk	Pension risk is the risk of financial deficit in the defined benefit scheme of the Society.	Pension Risk is managed directly by the Board.
Operational risk	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	Operational risk is actively overseen through the Board Risk Committee.

Peter Kerns
Chairman
26 February 2014

Directors' Report

The directors have pleasure in submitting the 151st Annual Report and Accounts for the year ended 31 December 2013.

BUSINESS REVIEW

A full review of business performance is included within the Chief Executive's Business Review and the Strategic Report.

DIRECTORS

The following persons served as directors of the Society during the year:

Richard Goddard (Non-executive Director)
Keith Griffiths (Finance Director)
Peter Kerns (Non-executive Director – elected Chairman 24 April 2013)
Derek Lyons (Non-executive Director and Senior Independent Director - resigned as Vice-Chairman 24 April 2013)
Paul Marriott (Chairman) (retired 24 April 2013)
Ann O'Connell (Non-executive Director)
Mark Taylor (Non-executive Director) (resigned 19 February 2013)
Jim Washington (Non-executive Director – elected Vice-Chairman 24 April 2013)
Kevin Wilson (Chief Executive)

No director had any beneficial interest in the shares or debentures of any of the subsidiary undertakings.

The directors wish to acknowledge the excellent contribution made by all staff to the Society's successful performance in 2013. Their enthusiasm and dedication to our objective of exceptional customer service will ensure continued success in the years ahead.

During the financial year the Society has maintained and developed systems for the provision of information to employees. In addition, meetings, team briefings, circulars, newsletters and the Society's intranet ensure employees are aware of the Society's performance and objectives and the business environment in which it operates. It is the Society's policy to afford access to training, career development and promotion opportunities equally to all employees regardless of their age, ethnic origin, creed, gender, marital status, disability, sexual orientation, religion or belief. Should employees become disabled, it is the Society's policy to continue their employment where possible with appropriate training and, if appropriate, redeployment.

We also wish to thank the Society's agents and many other business associates for their continued support.

INTEREST RATES

The Society's standard variable mortgage rate was 5.19% throughout the year.

TREATING CUSTOMERS FAIRLY

Historically the Society has always strived to ensure the fair treatment of its customers in every way and, as part of its continuing commitment to that principle, has completed an extensive exercise in promoting and developing a cultural model which will continue to support that aim. This involves continually reviewing procedures, measuring performance and listening to customers concerns and complaints, and then taking action to put things right quickly if we fall below our high standards.

PROVISION OF INFORMATION TO AUDITORS

Each person who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Society's auditors are unaware; and
- each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

INDEPENDENT AUDITORS

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Society will be proposed at the Annual General Meeting.

POST BALANCE SHEET EVENTS

The directors consider that there have been no events since the year end that have an important effect on the position of the Society.

Peter Kerns
Chairman
26 February 2014

Derby Branch raised money for their nominated charity, Marie Curie Cancer Care

2013 AGM Cheque presentation to the Donna Louise Trust

Corporate Governance Report

The Society's Board is accountable to members for the careful direction of Society affairs, safe stewardship of funds held on members' behalf and the provision of high quality products and services which meet the needs of individual members whilst offering a fair deal to all.

At the beginning of 2013, the Board consisted of seven non-executive and two executive directors. On 19 February 2013 Mark Taylor resigned as a non-executive director. On 24 April 2013 Paul Marriott retired as Chairman and Peter Kerns was appointed as Chairman. At the end of 2013 the Board, therefore, consisted of five non-executive and two executive directors.

In striving towards ever higher standards of service to members, the Board focuses not only on members' interests as customers for the Society's products and services but also their interests as members of a mutual enterprise. In regard to this latter relationship, the Board take account of the guidance contained in the revised UK Corporate Governance Code 2012. Whilst this code is addressed to plcs, the Prudential Regulation Authority state that building societies should have regard to the Code when establishing and reviewing their own corporate governance requirements. The Board is pleased to confirm that it has had regard to the Code in all matters pertaining to their corporate governance requirements.

A formal system of board appraisal is in place and each director's personal contribution to Board proceedings and Society progress in the year has been the subject of rigorous review by the Chairman. Performance evaluation of the Chairman has been conducted by non-executive directors led by the Senior Independent Director and taking account of the views of the executive directors.

The overall effectiveness of the Board and its committees is monitored throughout the year and is subject to formal review on an annual basis. This evaluation encompasses the balance of skills, experience, independence and knowledge of the Society's Board, together with its diversity and gender balance, how the board works together as a unit and other factors relevant to its effectiveness.

All directors participate in a programme of training and professional development designed to keep their knowledge and skills up to date in a fast changing, highly regulated business environment. They are also entitled to obtain independent professional advice at the Society's expense.

The offices of Chairman and Chief Executive are separate and held by different people.

The Board considers that all non-executive directors are independent and carry out their duties with complete objectivity. The Board has considered the individual performance of any director whose service exceeds nine years and is satisfied that their independence is not impaired as they are considered to be independent in character and judgement and free of any relationship or circumstances which could materially interfere with the exercise of their judgement. Non-executive directors with over nine years service offer themselves for re-election on an annual basis. All other directors are required to submit themselves for re-election at least once every three years.

All directors conform to the requirements of the Approved Persons regime instituted by the Financial Services Authority and pass the "fit and proper" test specified in the PRA Handbook.

The Code recommends that a non-executive director should be designated as the Senior Independent Director with responsibility for leading non-executive directors in the performance appraisal of the Chairman and to act as a contact for any member who may feel that contact with the Chairman or Chief Executive would not be appropriate. The Senior Independent Director is Derek Lyons, who is pleased to act as an alternative contact point for members.

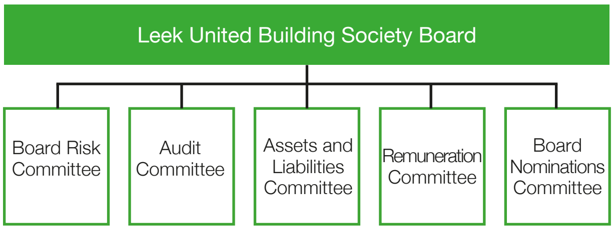
Register of Candidates for Board Vacancies

The Society maintains a register of potential candidates for future non-executive Board vacancies. Members who believe they have the skills, experience and commitment to serve effectively as a director of the Society are invited to write, in confidence, to the Chairman of the Nominations Committee at the Society's head office.

Corporate Governance Report (continued)

Board Committees

Supervision and direction is facilitated by the operation of a number of Board committees which meet regularly to consider issues specific to key business areas.



The governance structure at the start of the year included the **Audit and Risk Committee**. The Audit and Risk Committee's role was to assure the Board that risks were being managed in accordance with policy and within the limits of the Board's stated risk appetite. The Audit and Risk Committee received reports from the Society's internal auditor and external auditors and its remit included matters relating to compliance with the Building Societies Act 1986 and the Financial Services and Markets Act 2000, the effectiveness of systems of control, risk management, Internal Capital Adequacy Assessment Process (ICAAP), external audit arrangements, annual report and accounts and all regulatory issues. It considered and recommended the appointment of internal and external auditors and monitored their effectiveness and independence.

During 2013, the Board revised the governance structure, such that the responsibilities previously undertaken by the Audit and Risk Committee are now separately assigned to the **Board Risk Committee (BRC)** and to the **Audit Committee**.

The **BRC** advise the Board on the Risk Management Framework and oversees the design, quality and effectiveness of the Framework. In co-operation with the Audit Committee, the BRC monitors identified risk control failings and weaknesses and actions taken to resolve them. The BRC is responsible for risk culture and independence, the risk appetite statement, risk policies and reports of positions against limits, the ICAAP, the Recovery and Resolution Plan and the Pillar 3 disclosure.

At 31 December 2013 the committee comprised:

Ann O'Connell (chair)
Richard Goddard
Jim Washington
Kevin Wilson

The **Audit Committee** is responsible for:

- the effective operation of the Society's internal controls and risk management systems
- reviewing the Society's procedures for detecting fraud and for whistle blowing
- the appointment or removal of the Head of Internal Audit, and monitoring of the effectiveness of the Internal Audit function
- monitoring the integrity of the financial statements of the Society, reviewing any significant financial reporting judgments contained therein
- the engagement, performance and effectiveness of the external auditor, ensuring that the provision of non-audit services and associated fees do not impair the independence and objectivity of the external audit and that recommendations have been acted upon by the Society

The judgmental and significant issues considered by the Audit Committee in relation to the financial statements for 2013 included:

- The requirement for specific and general mortgage provisions, assessed based on the level of arrears and other potential impairment indicators within the mortgage book
- The requirement for MPPI provisions, based on the claims outstanding and experience to date of numbers of MPPI claims upheld and consideration of any regulatory issues
- The calculation of the FSCS levy accrual, based on publicly available information in respect of the levy for 2013 and future years
- The provision required for potential redress for compensation in respect of a calculation adjustment to mortgage interest which occurred during 2013 and ensuring appropriate controls in place over interest calculation
- The assumptions utilised in the valuation of the defined benefit pension scheme under FRS17

The Audit Committee reviewed and challenged the assumptions for each accounting estimate and was satisfied that they were appropriately dealt with in the accounts.

The external auditor, PricewaterhouseCoopers LLP, has been engaged by the Society since the audit of the 1998 financial statements. During 2013, the Audit Committee considered whether a tender should be undertaken regarding the reappointment of the external auditor and decided to defer an audit tender until 2015.

The Audit Committee assessed the effectiveness of the external audit process through a combination of feedback from committee members and Society management, completion of standard questionnaires and other external independent information where available.

The Audit Committee assesses all requests to use the external auditor for non-audit work and receives explanations from management and the external auditor to satisfy each member that the objectivity and independence of the external auditors is safeguarded.

At 31 December 2013 the committee comprised:

Richard Goddard (chair)
Ann O'Connell
Jim Washington

The **Remuneration Committee** sets appropriate levels of pay and conditions for Board and executive management posts. The committee makes an annual report to members – this can be found on page 18. The committee is composed entirely of non-executive directors and committee membership at 31 December 2013 was as follows:

Jim Washington (chair)
Derek Lyons
Peter Kerns

The **Board Nominations Committee** is responsible for regularly reviewing the structure, size and composition, and the balance of skills, knowledge and experience of the Board, and making recommendations to the Board with regard to any necessary changes and in particular to ensure that membership is refreshed. All non-executive Board vacancies are advertised in the press/media with a regional or national scope as appropriate.

Careful consideration is given to the combined skills and experience of the existing Board members and diversity in making new appointments to the Board. The Society believes that diversity amongst Board members is of value and this is considered alongside the key requirements of relevant knowledge, skill and expertise to perform effectively as a member of the Board. It is the Society's policy to make appointments to the Board without regard to age, ethnic origin, creed, gender, marital status, disability, sexual orientation and religion or belief.

In 2013 the Society used an independent executive search and selection firm, Adderley Featherstone to support the recruitment of non-executive directors. The only connection with Adderley Featherstone is for recruitment and selection.

At 31 December 2013 the committee comprised:

Peter Kerns (chair)
Derek Lyons
Jim Washington
Kevin Wilson

The **Assets and Liabilities Committee** supervises the Group's treasury and financial risk management activities. At 31 December 2013 the committee comprised:

Kevin Wilson (chair)
Richard Goddard
Keith Griffiths
Peter Kerns
Derek Lyons
Ann O'Connell

At the start of 2013, the Board operated the Information Technology Committee, responsible for the approval and monitoring of major IT projects. During 2013 this ceased to be a Board Committee.

Attendance at Board and Board sub-committee meetings – 2013

	Board	Remuneration	Audit & Risk	Risk	Audit	Assets & Liabilities	Nominations
Richard Goddard	12 (12)		1 (1)	7 (7)	3 (3)	4 (4)	1 (1)
Keith Griffiths	7 (12)					2 (4)	
Peter Kerns	12 (12)	6 (6)	1 (1)			4 (4)	5 (5)
Derek Lyons	12 (12)	6 (7)				3 (4)	4 (4)
Paul Marriott (to 24/4/13)	3 (3)	2 (2)	1 (1)			1 (1)	1 (1)
Ann O'Connell	12 (12)		1 (1)	7 (7)	3 (3)	4 (4)	
Mark Taylor (to 19/2/13)	0 (1)						
Jim Washington	12 (12)	7 (7)	1 (1)	7 (7)	3 (3)	1 (1)	4 (4)
Kevin Wilson	12 (12)			7 (7)		4 (4)	5 (5)

Figures in brackets denote number of meetings for which eligible to attend during the year.

Relations with members

The views of new and existing members are sought by individual questionnaires during the year. Member Forums are held each year when the Chief Executive gives a presentation on the main business developments and members present have the opportunity to raise questions to the directors and senior management.

Constructive use of the AGM

The Society sends details of the AGM to all members who are eligible to vote. Members are encouraged to vote or appoint a proxy to vote if they cannot or choose not to attend the AGM. A donation to charity is made for each vote cast.

All members of the Board are present at the AGM (unless their absence is unavoidable). The chair of all of the committees are therefore available to answer questions raised by members.

On behalf of the Board of directors

Peter Kerns
Chairman
26 February 2014

Directors' Remuneration Report

The Society's Remuneration Committee is composed solely of non-executive directors. Jim Washington, Derek Lyons and Peter Kerns served on the committee during 2013.

The committee's principal responsibility is the determination of the terms and conditions of employment of executive directors and the level of fees payable to non-executive directors. In making its determinations the committee is guided by the recommendations of the UK Corporate Governance Code 2010 relating to remuneration and to the FCA's Remuneration Code. It aims to set remuneration at levels that are sufficient to ensure that the interests of the executives are aligned with those of the Society's members and that the Society is able to attract, retain and motivate high calibre individuals.

When considering the remuneration of both the executive and non-executive directors, the Remuneration Committee takes into account the performance of the Society, comparable data from a range of independent sources covering building societies and firms in the wider financial services sector where the scale and complexity of business operations are similar to those of Leek United. The Remuneration Committee has regard to the UK Corporate Governance Code and the FCA Remuneration Code, effective from January 2011 for all building societies.

Executive Directors

The main elements of each executive director's remuneration package are - basic salary, pension benefits, private medical insurance and the provision of a company car or car allowance.

The Chief Executive is a member of the Leek United Building Society Pension and Assurance Scheme, which closed for future accrual on 24 April 2013.

The Chief Executive and Finance Director are members of the defined contribution stakeholder pension scheme.

The Corporate Governance Code recommends that an executive director's service contract period should be set at 12 months or less and the contractual notice period for existing and new executive director appointments conform to this limit.

Non-Executive Directors

Non-executive directors receive fees for the provision of their services. They do not have service contracts and do not receive any other benefits (other than travelling expenses incurred in the normal course of duties), bonus or pension entitlement. They are subject to tri-annual re-election by the members at an Annual General Meeting and those who continue beyond a third three year term are subject to annual re-election thereafter.

Directors' Remuneration

The table in note 5 to the Annual Accounts summarises directors' pay and benefits for the year ended 31 December 2013.

Member Consultation

The Directors' Remuneration Report will be the subject of an advisory vote at this year's AGM.

Jim Washington
Chair of the Remuneration Committee
26 February 2014

Macclesfield Branch undertook various activities to raise funds for East Cheshire Hospice

Congleton staff took part in a ‘Walk 10’ event to raise funds for their local Marie Curie Cancer Support branch.

Directors’ Responsibilities

Directors’ Responsibilities for Preparing the Annual Accounts

The following statement, which should be read in conjunction with the statement of the respective responsibilities of directors and auditors on page 20, is made by the directors to explain their responsibilities in relation to the preparation of the annual accounts, annual business statement, strategic report and directors’ report.

The directors are required by the Building Societies Act 1986 (the Act) to prepare, for each financial year, annual accounts which give a true and fair view:

- of the state of the affairs of the Society and of the Group as at the end of the financial year;
- of the income and expenditure of the Society and of the Group for the financial year.

In preparing these accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis, unless it is inappropriate to presume that the Society and Group will continue in business.

In addition to the accounts, the Act requires the directors to prepare, for each financial year, an annual business statement and a directors’ report, each containing prescribed information relating to the business of the group, if not already contained within the strategic report.

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Society’s performance, business model and strategy.

Directors’ Responsibilities for Accounting Records and Internal Control

The directors are responsible for ensuring that the Society and its connected undertakings:

- keep accounting records in accordance with the Building Societies Act 1986, and
- take reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Conduct Authority and the Prudential Regulation Authority under the Financial Services and Markets Act 2000.

The directors have general responsibility for safeguarding the assets of the Society and Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society’s website. Legislation in the UK, governing the preparation and dissemination of financial statements, may differ from legislation in other jurisdictions.

Going Concern

Having fully considered the financial strength of the Society and the current financial market, the directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Peter Kerns
Chairman
26 February 2014

Independent Auditors' Report to the Members of Leek United Building Society

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Society's affairs as at 31 December 2013 and of the Group's and the Society's income and expenditure and the Group's cash flows for the year then ended;
- have been prepared in accordance with the requirements of the Building Societies Act 2006.

This opinion is to be read in the context of what we say below.

What we have audited

The financial statements for the year ended 31 December 2013, which are prepared by Leek United Building Society, comprise:

- the Group and Society Income and Expenditure Accounts
- the Group and Society Balance Sheets
- the Group Cash Flow Statement
- the Group and Society Statements of Total Recognised Gains and Losses
- related notes.

The financial reporting framework that has been applied in their preparation comprises applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and Society's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.

If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the accounting records and the financial statements; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

Matters on which we are required to report by exception

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- proper accounting records have not been kept by the Society; or
- the Society financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 19, the directors are responsible for the preparation of financial statements which give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Heather Varley (Senior Statutory Auditor)

for and behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Manchester

26 February 2014

Income and Expenditure Accounts

Income and Expenditure Accounts for the year ended 31 December 2013

	Note	Group 2013 £000's	Group 2012 £000's	Society 2013 £000's	Society 2012 £000's
Interest receivable and similar income	2	24,769	24,240	24,761	24,231
Interest payable and similar charges	3	(14,512)	(15,774)	(14,512)	(15,774)
Net interest receivable		10,257	8,466	10,249	8,457
Income from investments	4	-	-	250	400
Fees and commissions receivable		1,874	1,830	1,553	1,247
Fees and commissions payable		(446)	(370)	(446)	(370)
Other operating income		7	7	7	7
Total income		11,692	9,933	11,613	9,741
Administrative expenses	5	(6,699)	(6,260)	(6,517)	(6,028)
Depreciation	13	(257)	(278)	(245)	(266)
Other operating charges	6	(364)	(212)	(364)	(212)
Net finance credit on pension scheme	26	160	113	160	113
Operating profit before provisions		4,532	3,296	4,647	3,348
Provisions for bad and doubtful debts	7	232	146	232	146
Provisions for contingent liabilities and commitments - FSCS Levy	24	(500)	(301)	(500)	(301)
Profit on ordinary activities before tax		4,264	3,141	4,379	3,193
Tax on profit on ordinary activities	8	(1,058)	(871)	(1,030)	(788)
Profit for the financial year	23	3,206	2,270	3,349	2,405

The notes on pages 25 to 41 form part of these accounts.

The above results are all derived from continuing operations. There is no material difference in the current or previous year between the results above and the results which would have been reported on an unmodified historical cost basis.

Statement of total recognised gains and losses for the year ended 31 December 2013

	Note	Group 2013 £000's	Group 2012 £000's	Society 2013 £000's	Society 2012 £000's
Profit for the financial year		3,206	2,270	3,349	2,405
Actuarial gain (loss) recognised in pension scheme	26	1,105	(283)	1,105	(283)
Impact of ceasing to recognise the pension scheme asset	26	(3,852)	-	(3,852)	-
Taxation relating to pension scheme		549	65	549	65
Total recognised gains relating to the year		1,008	2,052	1,151	2,187

Balance Sheets

Balance sheets as at 31 December 2013

ASSETS	Note	Group 2013 £000's	Group 2012 £000's	Society 2013 £000's	Society 2012 £000's
Liquid assets:					
Cash in hand and balances with the Bank of England		69,243	62,762	69,243	62,762
Loans and advances to credit institutions	9	40,943	36,703	40,835	36,674
Debt securities	10	65,132	85,411	65,132	85,411
Loans and advances to customers:					
Loans fully secured on residential property	11	673,722	619,329	673,568	619,173
Loans fully secured on land	11	544	697	544	697
Investments in subsidiary undertakings	12	-	-	24	24
Tangible fixed assets	13	2,458	2,641	2,447	2,618
Other assets	14	930	504	929	503
Prepayments and accrued income	15	396	328	396	328
Total assets		853,368	808,375	853,118	808,190

Balance Sheets

Balance sheets as at 31 December 2013

LIABILITIES	Note	Group 2013 £000's	Group 2012 £000's	Society 2013 £000's	Society 2012 £000's
Shares	16	770,455	719,818	770,455	719,818
Amounts owed to credit institutions	17	-	8,081	-	8,081
Amounts owed to other customers	18	25,810	23,343	25,810	23,343
Other liabilities	19	763	496	855	800
Accruals and deferred income	20	647	530	588	467
Provisions for liabilities and charges	21	993	936	993	936
Net pension liability	26	-	1,479	-	1,479
Revaluation reserve	22	1,113	1,113	1,113	1,113
General reserve	23	53,587	52,579	53,304	52,153
Total liabilities		853,368	808,375	853,118	808,190

The notes on pages 25 to 41 form part of these accounts.

These accounts were approved by the Board of directors on 26 February 2014 and were signed on its behalf by:

Peter Kerns Chairman

Kevin Wilson Chief Executive

Group Cash Flow Statement

Group cash flow statement for the year ended 31 December 2013

	2013 £000's	2012 £000's
Net cash (outflow)/inflow from operating activities (see below)	(4,135)	1,335
Taxation paid	(264)	(560)
Capital expenditure and financial investment:		
Purchase of tangible fixed assets	(77)	(127)
Sale of tangible fixed assets	15	-
Purchase of investment securities	(45,285)	(76,674)
Maturities and disposals of investment securities	65,564	113,460
Increase in cash and short term deposits	15,818	37,434

Reconciliation of operating profit to net cash inflow from operating activities

	2013 £000's	2012 £000's
Profit on ordinary activities before tax	4,264	3,141
Increase in prepayments and accrued income	(68)	(82)
Increase/(Decrease) in accruals and deferred income	117	(21)
Provisions for bad and doubtful debts	(231)	(140)
Increase in provisions for liabilities and charges	57	54
Depreciation	257	278
(Profit)/Loss on disposal of tangible fixed assets	(12)	4
Pension contributions in excess of charge	(4,668)	(1,078)
Net cash (outflow)/inflow from trading activities	(284)	2,156
Increase in loans and advances to customers	(54,009)	(29,357)
Increase in shares	50,637	25,304
Decrease in amounts owed to credit institutions and other customers	(5,614)	(1,788)
Decrease in loans and advances to credit institutions	5,097	5,000
Decrease in other assets	6	1
Increase in other liabilities	32	19
Net cash (outflow)/inflow from operating activities	(4,135)	1,335

Analysis of the balances of cash as shown in the balance sheet

	1 January 2013 £000's	Movement in year £000's	31 December 2013 £000's
Cash in hand and balances with the Bank of England	62,762	6,481	69,243
Loans and advances to credit institutions - repayable on demand (including accrued interest)	31,606	9,337	40,943
	94,368	15,818	110,186

Notes to the Accounts at 31 December 2013

1 Principal accounting policies

The accounts have been prepared in accordance with applicable accounting standards in the United Kingdom and with the Building Societies (Accounts and Related Provisions) Regulations 1998. The accounts comply with relevant British Bankers Association Statements Of Recommended Accounting Practices in all material respects. A summary of the more significant accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The accounts have been prepared on a going concern basis under the historical cost convention, modified to include land and buildings at valuation. This valuation was performed under the transitional rules of FRS15, consequently land and buildings have been included at their 31 December 1999 revalued amount.

Basis of consolidation

The group accounts include the results, cash flows and balance sheets of the Society and its subsidiaries.

Taxation

The tax charge is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is provided using the full provision method in accordance with FRS19 "Deferred Tax".

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is measured on a non-discounted basis.

Fixed assets and depreciation

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation with the exception of freehold land and buildings which are stated at their previously revalued amount and no further revaluations will be undertaken. Freehold buildings are depreciated on a straight-line basis over 50 years. Freehold land is not depreciated. Equipment, fixtures and fittings are depreciated on a straight-line basis over their estimated useful lives of between three and fifteen years.

Liquid assets

Liquid assets are stated at cost to the Society together with accrued interest to the balance sheet date less any impairment. At the date of purchase the cost is adjusted where relevant to exclude accrued interest and a similar adjustment is also made on realisation. Premiums and discounts arising on the purchase of liquid assets are amortised on a straight-line basis over the period to maturity.

Incentives to borrowers

Mortgage incentives, other than interest discounts, are charged to the income and expenditure account in the year in which the costs are incurred, and are shown as other operating charges. Interest discounts reduce interest receivable over the period of the relevant discounted rate.

Broker fees

Introductory fees paid to brokers in respect of mortgages are charged to fees and commissions payable in the year in which the costs are incurred.

Fees and commissions receivable

Fees and commissions receivable includes the following:
- sales commissions receivable in the year net of clawback of any commissions repayable.
- mortgage fees which are accounted for on a received basis.

Notes to the Accounts at 31 December 2013

Losses on loans and advances

Provision is made for all incurred losses on loans and advances based upon an appraisal.

Specific provisions are made against mortgage loans on a case by case basis to cover anticipated losses in respect of all accounts that are in arrears or on concessions and where a probable loss has been identified. Anticipated losses on such accounts are calculated as the difference between the current achievable market value of the security, based on current valuations of the property performed by qualified surveyors, and the outstanding loan balance, after making appropriate allowance for costs of repossession and sale and any amounts recoverable under external loss insurance.

General provisions are made to reflect the probability that other loans may also be impaired at the balance sheet date, with the result that the amount outstanding may not be recoverable in full. The provision is based upon the Society's experience, current economic trends and consistency with industry levels.

Interest recognition

Interest in respect of all loans is credited to the income and expenditure account as it becomes receivable, except in respect of advances where the property has been taken into possession and where the interest is considered irrecoverable. Such interest is credited to the suspended interest account.

Pension costs

The Society provides a defined contribution stakeholder pension scheme. Contributions to the scheme are charged to the income and expenditure account in the period to which they relate.

On 24 April 2013 the Society closed an externally funded final salary (defined benefit) scheme administered by Jardine Lloyd Thompson to further accrual. Contributions payable to the scheme are determined by a qualified actuary on the basis of a triennial valuation using the projected unit method, and are charged to the income and expenditure account over the periods benefiting from the employees' services. The charge to the income and expenditure account over the financial year in relation to the defined benefit scheme is shown in note 26.

In accordance with FRS17 the pension scheme surplus on the closed scheme at December 2013 has not been recognised as an asset on the balance sheet and the net adjustment has been transferred to the statement of unrealised gains and losses. The liability recognised in the December 2012 balance sheet in respect of defined benefit pension plans was the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. Quoted securities held as plan assets in the defined benefit pension scheme are valued at bid price.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality sterling bonds of comparable term to the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited each year to reserves and shown in the statement of total recognised gains and losses. Past service costs are recognised immediately in income.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less any provision for impairment.

Derivatives

The criteria required for an instrument to be classified as a hedge are that the transaction must be reasonably expected to match or eliminate a significant proportion of the risk inherent in the assets, liabilities, other positions or cash flows being hedged. This results from potential movements in interest rates and market indices. Adequate evidence of the intention to hedge and linkage with the underlying risk inherent in the assets, liabilities, other positions or cash flows being hedged must be established at the outset of the transactions.

All interest rate related derivative contracts are accounted for on a consistent basis with the underlying assets, liabilities and positions. The group hedges its interest rate exposures on a portfolio basis. Amounts accrued on hedging contracts and instruments are included within accruals or prepayments as appropriate.

Notes to the Accounts at 31 December 2013

2 Interest receivable and similar income

	Group 2013 £000's	Group 2012 £000's	Society 2013 £000's	Society 2012 £000's
On loans fully secured on residential property	23,736	22,349	23,728	22,340
Other loans	34	43	34	43
On debt securities - interest and other income	1,347	2,021	1,347	2,021
On other liquid assets - interest and other income	645	650	645	650
Net expense on financial instruments	(993)	(823)	(993)	(823)
	24,769	24,240	24,761	24,231

3 Interest payable and similar charges

	Group 2013 £000's	Group 2012 £000's	Society 2013 £000's	Society 2012 £000's
On shares held by individuals	14,109	15,340	14,109	15,340
On deposits and other borrowings	403	434	403	434
	14,512	15,774	14,512	15,774

4 Income from investments

	Group 2013 £000's	Group 2012 £000's	Society 2013 £000's	Society 2012 £000's
Dividends from shares in subsidiaries	-	-	250	400

5 Administrative expenses

	Group 2013 £000's	Group 2012 £000's	Society 2013 £000's	Society 2012 £000's
Staff costs:				
Wages and salaries	3,334	3,051	3,193	2,868
Social security costs	318	267	303	249
Other pension costs	303	412	297	401
	3,955	3,730	3,793	3,518
Other expenses:				
Remuneration of auditors:				
audit services – statutory audit	60	58	60	58
other services – audit of subsidiaries	9	8	-	-
other services	77	56	77	56
Other	2,598	2,408	2,587	2,396
	6,699	6,260	6,517	6,028

Notes to the Accounts at 31 December 2013

5 Administrative expenses (continued)

The average number of persons (including executive directors) employed during the year was:

	Group 2013 Number	Group 2012 Number	Society 2013 Number	Society 2012 Number
(i) At principal office:				
Full-time staff	56	53	52	49
Part-time staff	19	18	19	18
(ii) At branch offices:				
Full-time staff	42	44	42	44
Part-time staff	24	23	24	23

Directors' loans and transactions

A register of loans and transactions with directors and connected persons is maintained, and is available for inspection by members at the Society's principal office up to and including 23 April 2014 and at the Annual General Meeting. The total loans outstanding at 31 December 2013, in respect of 3 (2012: 3) persons, amounted to £175,272 (2012: £358,423).

There is no disclosure in respect of directors' investment accounts because of the overriding duty of confidentiality with regard to customers' affairs.

Analysis of directors' remuneration

	2013					2012				
	Salary/ Fees £000's	Benefits £000's	Sub Total £000's	Pensions £000's	Total £000's	Salary/ Fees £000's	Benefits £000's	Sub Total £000's	Pensions £000's	Total £000's
Non-executive directors										
Paul Marriott (to 24/4/13)	10	-	10	-	10	31	-	31	-	31
Richard Goddard	23	-	23	-	23	21	-	21	-	21
Peter Kerns	29	-	29	-	29	21	-	21	-	21
Derek Lyons	27	1	28	-	28	26	1	27	-	27
Ann O'Connell	23	-	23	-	23	1	-	1	-	1
Jim Washington	26	-	26	-	26	23	-	23	-	23
Philip Stanyer (to 8/2/12)	-	-	-	-	-	3	-	3	-	3
Mark Taylor (to 19/2/13)	4	-	4	-	4	1	-	1	-	1
Executive directors										
Kevin Wilson	181	9	190	18	208	175	11	186	-	186
Keith Griffiths	95	10	105	35	140	96	8	104	20	124
	418	20	438	53	491	398	20	418	20	438

The executive directors have the option to sacrifice part of their salary in exchange for the Society making additional pension contributions on their behalf. During the year, Keith Griffiths took advantage of this option.

6 Other operating charges

	Group 2013 £000's	Group 2012 £000's	Society 2013 £000's	Society 2012 £000's
Mortgage incentives	264	195	264	195
Regulated business provision (see note 21)	-	17	-	17
Mortgage repayment provision (see note 21)	100	-	100	-
	364	212	364	212

Notes to the Accounts at 31 December 2013

7 Provisions for bad and doubtful debts

Group & Society

	Loans fully secured on residential property		
	Specific £000's	General £000's	Total £000's
At 1 January 2013	149	1,000	1,149
Amounts utilised	(7)	-	(7)
Credit for the year	(124)	(100)	(224)
At 31 December 2013	18	900	918

The charge in the income and expenditure account is as follows:

	2013 £000's	2012 £000's
Credit for the year	(224)	(140)
Amounts recovered in respect of loans previously written off	(8)	(6)
Income and expenditure account	(232)	(146)

The provisions as at 31 December 2013 have been deducted from loans fully secured on residential property in the balance sheet.

8 Tax on profit on ordinary activities

	Group 2013 £000's	Group 2012 £000's	Society 2013 £000's	Society 2012 £000's
(a) UK Corporation tax at 23.25% (2012: 24.5%):				
Current Tax	499	496	471	412
UK Deferred tax at 20% (2012: 23%):				
Deferred tax - current year (see note 14)	559	375	559	376
Total	1,058	871	1,030	788

The tax assessed for the year is lower (2012: lower) than the standard rate of corporation tax in the UK of 23.25% (2012: 24.5%). The differences are explained below.

	Group 2013 £000's	Group 2012 £000's	Society 2013 £000's	Society 2012 £000's
(b) Factors affecting current tax charge in year:				
Profit on ordinary activities before tax	4,264	3,141	4,379	3,193
Tax on profit at UK standard rate of 23.25% (2012: 24.5%)	991	770	1,018	782
Effects of:				
Difference between depreciation and capital allowances together with other timing differences	(559)	(375)	(559)	(376)
Dividend from subsidiary	-	-	(58)	(98)
Expenses not deductible for tax purposes	8	14	6	14
Adjustment re: prior year	3	11	3	11
Impact of change in rate - deferred tax	61	79	61	79
Small companies relief	(5)	(3)	-	-
Current tax charge	499	496	471	412

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2013 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

Notes to the Accounts at 31 December 2013

9 Loans and advances to credit institutions

	Group 2013 £000's	Group 2012 £000's	Society 2013 £000's	Society 2012 £000's
Maturity analysis:				
Repayable on demand	40,905	31,578	40,797	31,549
In more than three months but not more than one year	-	5,000	-	5,000
	40,905	36,578	40,797	36,549
Accrued interest on balances:				
Repayable on demand	38	28	38	28
In more than three months but not more than one year	-	97	-	97
	40,943	36,703	40,835	36,674

10 Debt securities

	Group 2013 £000's	Group 2012 £000's	Society 2013 £000's	Society 2012 £000's
Issued by public bodies	-	15,011	-	15,011
Issued by other borrowers	65,132	70,400	65,132	70,400
	65,132	85,411	65,132	85,411
Maturity analysis:				
In not more than one year	54,500	49,500	54,500	49,500
In more than one year	10,209	35,029	10,209	35,029
	64,709	84,529	64,709	84,529
Accrued interest	423	882	423	882
	65,132	85,411	65,132	85,411
Analysis of debt securities:				
Listed	35,002	35,266	35,002	35,266
Unlisted	30,130	50,145	30,130	50,145
	65,132	85,411	65,132	85,411
Debt securities held as financial fixed assets:				
Maturity value	64,500	84,000	64,500	84,000
Unamortised premium	209	529	209	529
	64,709	84,529	64,709	84,529
Accrued interest	423	882	423	882
	65,132	85,411	65,132	85,411

The directors of the Society consider that the primary purpose of holding securities is prudential. The securities held as liquid assets are held with the intention of use on a continuing basis in the Society's activities and are classified as "financial fixed assets".

Movements of financial fixed assets during the year were as follows:

Group & Society	2013 £000's
At 1 January 2013	85,411
Additions	45,285
Maturities and disposals	(65,564)
At 31 December 2013	65,132

Notes to the Accounts at 31 December 2013

11 Loans and advances to customers

The maturity of loans fully secured on residential property and other loans fully secured on land, from the balance sheet date, is as follows:

	Group 2013 £000's	Group 2012 £000's	Society 2013 £000's	Society 2012 £000's
Repayable on demand	983	859	983	859
In not more than three months	5,006	4,569	5,006	4,569
In more than three months but not more than one year	18,430	16,357	18,430	16,357
In more than one year but not more than five years	114,604	109,948	114,543	109,887
In more than five years	536,161	489,442	536,068	489,347
	675,184	621,175	675,030	621,019
Provisions for bad and doubtful debts	(918)	(1,149)	(918)	(1,149)
	674,266	620,026	674,112	619,870

It should be noted that the above maturity analysis may not reflect actual experience of repayments since many mortgage loans are repaid early.

12 Investments in subsidiary undertakings

	Society 2013 £000's	Society 2012 £000's
Shares	2	2
Loans	22	22
	24	24

Leek United Home Loans Limited is a wholly owned direct subsidiary undertaking of the Society. The Society holds £100 of shares in the subsidiary. The company is registered in England and Wales. All shares are £1 ordinary shares. The principal activity of the subsidiary is the purchase and administration of mortgage portfolios. No director had a beneficial interest in any shares or debentures of the subsidiary undertaking.

Leek United Financial Services Limited is a wholly owned direct subsidiary undertaking of the Society. The Society holds £1,000 of shares in the subsidiary. The company is registered in England and Wales. All shares are £1 ordinary shares. The principal activity of the subsidiary is the provision of financial services. No director had a beneficial interest in any shares or debentures of the subsidiary undertaking.

The Mortgage Outlet Limited is a wholly owned direct subsidiary undertaking of the Society. The Society holds £1,000 of shares in the subsidiary. The company is registered in England and Wales. All shares are £1 ordinary shares. The principal activity of the subsidiary was the provision of mortgage broking services. No director had a beneficial interest in any shares or debentures of the subsidiary undertaking. The company ceased trading on 31 December 2009. From 1 January 2010 the company has been dormant.

Notes to the Accounts at 31 December 2013

13 Tangible fixed assets

Group	Freehold land and buildings £000's	Equipment fixtures and fittings £000's	Totals £000's
Cost			
At 1 January 2013	2,583	4,903	7,486
Additions	-	77	77
Disposals	-	(90)	(90)
At 31 December 2013	2,583	4,890	7,473
Accumulated depreciation			
At 1 January 2013	498	4,347	4,845
Charge for the year	39	218	257
Disposals	-	(87)	(87)
At 31 December 2013	537	4,478	5,015
Net book value			
At 31 December 2013	2,046	412	2,458
At 31 December 2012	2,085	556	2,641

Society	Freehold land and buildings £000's	Equipment fixtures and fittings £000's	Totals £000's
Cost			
At 1 January 2013	2,583	4,855	7,438
Additions	-	77	77
Disposals	-	(90)	(90)
At 31 December 2013	2,583	4,842	7,425
Accumulated depreciation			
At 1 January 2013	498	4,322	4,820
Charge for the year	39	206	245
Disposals	-	(87)	(87)
At 31 December 2013	537	4,441	4,978
Net book value			
At 31 December 2013	2,046	401	2,447
At 31 December 2012	2,085	533	2,618

Notes to the Accounts at 31 December 2013

13 Tangible fixed assets (continued)

The net book value of land and buildings occupied by the Society for its own activities is £2,046,000 (2012: £2,085,000).

From 31 December 2000, the Society adopted the transitional arrangements under FRS15 to maintain the book value of fixed assets at their previously revalued amounts.

If land and buildings had not been revalued they would have been included at the following amount:

	2013 £000's	2012 £000's
Cost	1,624	1,624
Aggregate depreciation based on cost	(420)	(401)
	1,204	1,223

14 Other assets

	Group 2013 £000's	Group 2012 £000's	Society 2013 £000's	Society 2012 £000's
Deferred tax asset	887	455	886	454
Other	43	49	43	49
	930	504	929	503
The elements of deferred taxation are as follows:				
Difference between accumulated depreciation and capital allowances	27	20	26	19
General bad and doubtful debt provision	208	230	208	230
Other timing differences	652	205	652	205
	887	455	886	454
Deferred taxation at 1 January 2013	455	528	454	528
Deferred tax charge	(559)	(375)	(559)	(376)
Movements in relation to pension scheme	991	302	991	302
At 31 December 2013	887	455	886	454

15 Prepayments and accrued income

	Group 2013 £000's	Group 2012 £000's	Society 2013 £000's	Society 2012 £000's
Other	396	328	396	328

16 Shares

	Group 2013 £000's	Group 2012 £000's	Society 2013 £000's	Society 2012 £000's
Held by individuals	770,455	719,818	770,455	719,818
In the ordinary course of business, shares are repayable from the balance sheet date as follows:				
Repayable on demand	503,627	471,655	503,627	471,655
In not more than three months	31,467	49,194	31,467	49,194
In more than three months but not more than one year	85,486	71,345	85,486	71,345
In more than one year but not more than five years	140,950	117,852	140,950	117,852
	761,530	710,046	761,530	710,046
Accrued interest	8,925	9,772	8,925	9,772
	770,455	719,818	770,455	719,818

Notes to the Accounts at 31 December 2013

17 Amounts owed to credit institutions

In the ordinary course of business, amounts owed to credit institutions are repayable from the balance sheet date as follows:

	Group 2013 £000's	Group 2012 £000's	Society 2013 £000's	Society 2012 £000's
In not more than three months	-	8,000	-	8,000
In more than three months but not more than one year	-	-	-	-
	-	8,000	-	8,000
Accrued interest	-	81	-	81
	-	8,081	-	8,081

18 Amounts owed to other customers

In the ordinary course of business, amounts owed to other customers are repayable from the balance sheet date as follows:

	Group 2013 £000's	Group 2012 £000's	Society 2013 £000's	Society 2012 £000's
Repayable on demand	25,645	13,358	25,645	13,358
In not more than three months	-	5,000	-	5,000
In more than three months but not more than one year	-	4,800	-	4,800
	25,645	23,158	25,645	23,158
Accrued interest	165	185	165	185
	25,810	23,343	25,810	23,343

19 Other liabilities

Amounts falling due within one year:

	Group 2013 £000's	Group 2012 £000's	Society 2013 £000's	Society 2012 £000's
Income tax	138	137	138	137
Corporation tax	386	151	372	112
Other taxation and social security costs	106	85	105	85
Amount due to subsidiary undertakings	-	-	107	343
Other creditors	133	123	133	123
	763	496	855	800

20 Accruals and deferred income

	Group 2013 £000's	Group 2012 £000's	Society 2013 £000's	Society 2012 £000's
Off balance sheet instruments accrued interest	158	142	158	142
Other	489	388	430	325
	647	530	588	467

21 Provisions for liabilities and charges

Group & Society

	Mortgage Repayment Provision £000's	Regulated Business £000's	FSCS Levy £000's	Total £000's
At 1 January 2013	-	42	894	936
Amount charged during the year	100	-	500	600
Amount paid during the year	-	-	(543)	(543)
At 31 December 2013	100	42	851	993

The regulated business provision is to provide for potential claims against the group in respect of past sales and is expected to be utilised in the coming year. The Financial Services Compensation Scheme levy is explained in note 24. The mortgage repayment provision is to provide for potential redress in respect of a calculation adjustment to mortgage interest made during 2013 and is expected to be utilised or released during 2014.

Notes to the Accounts at 31 December 2013

22 Revaluation reserve

	Group £000's	Society £000's
At 1 January 2013 and 31 December 2013	1,113	1,113

The revaluation reserve arises because until 31 December 1999, the Society revalued properties annually. From 31 December 2000, the Society adopted the transitional arrangements under FRS15 to maintain the book value of fixed assets at their previously revalued amounts.

23 General reserve

	Group £000's	Society £000's
At 1 January 2013	52,579	52,153
Profit for the financial year	3,206	3,349
Actuarial losses	(2,198)	(2,198)
At 31 December 2013	53,587	53,304

24 Financial Services Compensation Scheme Levy

The Society has a liability and a contingent liability in respect of contributions to the Financial Services Compensation Scheme.

Based on its share of protected deposits, the Society, in common with all regulated UK deposit takers, pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. The FSCS levy consists of two parts – a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it. In September 2008 a claim was triggered against the FSCS by the transfer of Bradford & Bingley plc's retail deposit business to Abbey National plc. In October 2008 a further claim was triggered against the FSCS by the transfer of Kaupthing Singer and Friedlander's (KSF) internet deposit business ('Kaupthing Edge') and Heritable Bank's (a subsidiary of Landesbanki hf) deposit business to ING Direct. The FSCS will also be liable to claims from depositors of Landesbanki hf (Icesave) and KSF whose balances have not been transferred to ING Direct but are covered by the FSCS. In December 2008 a further claim arose relating to the default of London Scottish Bank plc. A claim may also arise in respect of the Dunfermline Building Society. In 2008 a claim was triggered against the FSCS by the transfer of Bradford & Bingley plc's retail deposit business to Abbey National plc and similar issues with various Icelandic banks, London Scottish Bank plc and the transfer of core parts of Dunfermline Building Society to Nationwide Building Society in the first half of 2009. The FSCS has met, or will meet, the claims by way of loans received from HM Treasury with the interest on these loans being recovered through levies on the UK deposit takers.

We understand that the FSCS has met, or will meet, the claims by way of loans received from HM Treasury. The FSCS has, in turn, acquired the rights to the realisation of the assets of these banks. The FSCS is liable to pay interest on the loans from HM Treasury. The FSCS may have a further liability if there are insufficient funds available from the realisation of the assets of the banks to fully repay the respective HM Treasury loans.

As a result of notifications it has received from the FSCS, the Society has recognised in this year's accounts a provision for a levy of £500,000 which gives a total levy provision, as at 31 December 2013, of £851,025. This provision is in respect of the scheme year 2013/14, which is calculated with reference to the protected deposits at 31 December 2012, and the scheme year 2014/15, which has been estimated based on the protected deposits it held at 31 December 2013. In addition, the provision is also in respect of the second of three annual capital repayments to repay the balance of the original loan principal that is not expected to be recovered. This is calculated with reference to the protected deposits held by the Society at 31 December 2013. The levy amounts have been calculated with reference to the level of the Society's protected deposits and expected compensation levies.

Notes to the Accounts at 31 December 2013

25 Financial Instruments

A financial instrument is a contract which gives rise to a financial asset of one entity and a financial liability of another entity. The Group is a retailer of financial instruments in the form of mortgage and savings products and also uses wholesale financial instruments to invest liquid asset balances, raise wholesale funding and manage the risks arising from its operations.

The Group has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Board, which is charged with the responsibility for managing and controlling the balance sheet exposures and the use of financial instruments for risk management purposes.

Instruments used for risk management purposes include derivative financial instruments 'derivatives', which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates.

Derivatives are only used by the Group in accordance with the Building Societies Act 1986 (as amended by the Building Societies Acts 1997 and 2005), to reduce the risk of loss arising from changes in interest rates or other factors specified in the legislation. The Group does not trade in derivatives or use them for speculative purposes.

Type of derivatives

The principal derivatives used in balance sheet risk management are interest rate swaps which are used to hedge group balance sheet exposures arising from fixed rate mortgage lending and savings products.

The accounting policy for derivatives is described in note 1 to the accounts.

The following table describes the significant activities undertaken by the Group, the related risks associated with such activities and the types of derivatives which are typically used in managing such risks.

Activity	Risk	Type of hedge
Fixed rate savings products	Sensitivity to falls in interest rates	Receive fixed interest rate swaps
Fixed rate mortgage lending	Sensitivity to increases in interest rates	Pay fixed interest rate swaps

The table below shows the nominal principal amounts, credit risk weighted amounts and replacement costs of derivatives. Nominal principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The replacement cost represents the cost of replacing contracts with positive values, calculated at market rates current at the balance sheet date reflecting the Group's maximum exposure should the counterparties default. The credit risk weighted amount, which is calculated according to rules specified by the Prudential Regulatory Authority, is based on the replacement costs, but also takes into account measures of the extent of potential future exposure and the nature of the counterparty.

	Nominal principal amount 2013 £000's	Credit risk weighted amount 2013 £000's	Replacement cost 2013 £000's	Nominal principal amount 2012 £000's	Credit risk weighted amount 2012 £000's	Replacement cost 2012 £000's
Interest rate contracts maturing:						
In less than 1 year	30,000	-	-	-	-	-
Between 1 year and 5 years	61,000	137	369	65,000	125	-

Notes to the Accounts at 31 December 2013

25 Financial Instruments (continued)

Credit risk

The risk of losses arising from a debtor's failure to meet their legal and contractual obligations. Credit risk in relation to retail customers is governed by limits contained in our board-approved responsible lending policy. Exposure to wholesale counterparty risk is controlled within limits set within the Treasury Credit Policy.

Liquidity risk

Liquidity risk is the risk that the Society is unable to meet its financial obligations as they become due, resulting in an inability to support normal business activity or failure to meet liquidity regulatory requirements.

Stress tests are undertaken to measure the Society's ability to meet adverse cash flows on a regular basis. This activity is overseen by the Asset and Liability Committee.

Interest rate risk

The Group is exposed to movements in interest rates, and manages this exposure on a continuous basis, within limits set by the Board, using a combination of on and off balance sheet instruments. The interest rate sensitivity of the Group at 31 December 2013 by reference to the next interest reset date was:

	Not more than three months £000's	More than three months but not more than six months £000's	More than six months but not more than one year £000's	More than one year but not more than five years £000's	Non interest bearing £000's	Total £000's
Assets						
Liquid assets	122,148	42,709	10,000	-	461	175,318
Loans fully secured on residential property and other loans	404,102	16,010	46,682	208,390	(918)	674,266
Tangible fixed assets	-	-	-	-	2,458	2,458
Other assets	-	-	-	-	1,326	1,326
Total assets	526,250	58,719	56,682	208,390	3,327	853,368
Liabilities						
Shares	535,823	23,587	60,130	141,990	8,925	770,455
Amounts owed to credit institutions and other customers	25,646	-	-	-	164	25,810
Other liabilities	-	-	-	-	2,403	2,403
Reserves	-	-	-	-	54,700	54,700
Total liabilities	561,469	23,587	60,130	141,990	66,192	853,368
Off balance sheet items	91,000	(5,000)	(25,000)	(61,000)	-	-
Interest rate sensitivity gap	55,781	30,132	(28,448)	5,400	(62,865)	-
Cumulative gap	55,781	85,913	57,465	62,865	-	-

Notes to the Accounts at 31 December 2013

25 Financial Instruments (continued)

The interest rate sensitivity of the Group at 31 December 2012 was:

	Not more than three months £000's	More than three months but not more than six months £000's	More than six months but not more than one year £000's	More than one year but not more than five years £000's	Non interest bearing £000's	Total £000's
Assets						
Liquid assets	112,196	52,500	2,000	17,500	680	184,876
Loans fully secured on residential property and other loans	399,916	27,504	32,824	160,931	(1,149)	620,026
Tangible fixed assets	-	-	-	-	2,641	2,641
Other assets	-	-	-	-	832	832
Total assets	512,112	80,004	34,824	178,431	3,004	808,375
Liabilities						
Shares	509,876	34,270	48,051	117,849	9,772	719,818
Amounts owed to credit institutions and other customers	26,358	-	4,800	-	266	31,424
Other liabilities	-	-	-	-	1,962	1,962
Reserves	-	-	-	-	55,171	55,171
Total liabilities	536,234	34,270	52,851	117,849	67,171	808,375
Off balance sheet items	65,000	-	-	(65,000)	-	-
Interest rate sensitivity gap	40,878	45,734	(18,027)	(4,418)	(64,167)	-
Cumulative gap	40,878	86,612	68,585	64,167	-	-

Fair values of financial instruments

Set out below is a comparison of book and fair values of some of the Group's financial instruments by category as at 31 December 2013. The table excludes certain financial assets and liabilities which are not listed or publicly traded, or for which a liquid and active market does not exist. Thus it excludes mortgages, retail savings accounts and bank deposits.

Assets/(liabilities)	2013 Book value £000's	2012 Book value £000's	2013 Fair value £000's	2012 Fair value £000's
On balance sheet instruments:				
Debt securities	65,132	85,411	65,441	86,254
Off balance sheet instruments:				
Interest rate contracts	(158)	(142)	(212)	(1,772)

Notes to the Accounts at 31 December 2013

25 Financial Instruments (continued)

Hedges

	Gains £000's	Losses £000's	Net gain/(loss) £000's
Unrecognised losses on hedges at 1 January 2013	-	(1,772)	(1,772)
Of which recognised in the year to 31 December 2013	205	1,083	1,288
Gains/(losses) before 31 December 2012 that were not recognised in the year to 31 December 2013	205	(689)	(484)
Gains/(losses) arising in the year to 31 December 2013 that were not recognised in that year	701	(5)	696
Unrecognised gains/(losses) on hedges at 31 December 2013	906	(694)	212
Of which expected to be recognised in the year to 31 December 2014	-	(378)	(378)

Gains/(losses) arising during the year consist of new deals and any increase/(decrease) in the gain/(loss) for the year from that reported as at 31 December 2012.

The amount to be recognised in the year to 31 December 2014 relates to maturing contracts.

26 Pension scheme

The Society operated a defined benefit scheme up until 24 April 2013 when the scheme was closed to future accrual. The valuation of the scheme assets and liabilities under FRS17 at 31 December 2013 determined that the scheme was in surplus by £3,852,000 (2012: deficit £1,921,000) due to a combination of actuarial gains and an additional contribution of £4,000,000 made during 2013. This contribution, which formed part of an accelerated deficit recovery plan, was made as part of the closure arrangements.

The application of accounting standard FRS17 determines that in circumstances where an asset, such as the defined benefit pension scheme surplus, has no economic value the asset should not be recognised on the balance sheet. Accordingly the surplus of £3,852,000 has been set off against retained profits through the statement of total recognised gains and losses.

There remains a contingent liability in respect of future pension scheme deficits.

Present values of scheme liabilities, fair value of assets and deficit

	2013 £000's	2012 £000's	2011 £000's
Fair value of scheme assets	33,650	27,486	23,426
Present value of scheme liabilities	(29,798)	(29,407)	(26,142)
Surplus/(deficit) in scheme	3,852	(1,921)	(2,716)
Asset/(liability)	3,852	(1,921)	(2,716)
Deferred tax	-	442	679
Impact of ceasing to recognise the Pension Scheme asset	(3,852)	-	-
Net asset/(liability)	-	(1,479)	(2,037)

26 Pension scheme (continued)

Reconciliation of opening and closing balances of the present value of the scheme liabilities

	2013 £000's	2012 £000's
Scheme liabilities at start of year	29,407	26,142
Current service cost	160	356
Interest cost	1,197	1,228
Contributions by scheme participants	40	122
Actuarial (gains)/losses	(406)	2,061
Benefits paid and death in service insurance premiums	(600)	(502)
Scheme liabilities at end of year	29,798	29,407

Reconciliation of opening and closing balances of the fair values of scheme assets

	2013 £000's	2012 £000's
Fair value of scheme assets at start of year	27,486	23,426
Expected return on scheme assets	1,357	1,341
Actuarial gains	699	1,778
Contributions by Society	4,668	1,321
Contributions by scheme participants	40	122
Benefits paid and death in service insurance premiums	(600)	(502)
Scheme assets at end of year	33,650	27,486

The actual return on the scheme assets over the year ended 31 December 2013 was £2,056,000.

Total expense recognised in the income and expenditure account

	2013 £000's	2012 £000's
Current service cost	160	356
Interest cost on scheme liabilities	1,197	1,228
Expected return on scheme assets	(1,357)	(1,341)
Total expense recognised in the income and expenditure account	-	243

Statement of total recognised gains and losses

	2013 £000's	2012 £000's
Difference between expected and actual return on scheme assets: gain	699	1,778
Experience gains and losses arising on the scheme liabilities: gain/(loss)	1	(375)
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities: gain/(loss)	405	(1,686)
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable): gain/(loss)	1,105	(283)
Effect of limit on amount of surplus recognised due to some of the surplus not being recognisable: (loss)	(3,852)	-
Total amount recognised in statement of total recognised gains and losses: (loss)	(2,747)	(283)

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses since adoption of FRS17 is net losses of £8,573,000.

Notes to the Accounts at 31 December 2013

26 Pension scheme (continued)

Assets

	2013 £000's	2012 £000's	2011 £000's
Equities	7,957	11,008	13,828
Bonds	14,876	11,043	9,059
Diversified Growth Funds	10,536	5,128	-
Other	281	307	539
Total	33,650	27,486	23,426

None of the fair values of the assets shown above include any of the Society's own financial instruments or any property occupied by, or other assets used by, the Society.

Assumptions

	2013 % per annum	2012 % per annum	2011 % per annum
Retail Price index inflation	3.60	2.90	3.70
Consumer Price index inflation	2.60	2.20	2.30
Salary increases	4.60	3.90	4.00
Rate of discount	4.40	4.10	4.70
Allowance for pension in payment increases of RPI or 5% p.a. if less	2.60	2.20	3.00
Allowance for revaluation of deferred pensions of CPI/RPI or 5% p.a. if less	3.60	2.90	2.30
Allowance for commutation of pension for cash at retirement	100%	100%	100%

The mortality assumptions adopted at 31 December 2013 imply the following life expectancies:

Male retiring at age 60 in 2013	26.0 years	(2012: 26.0 years)
Female retiring at age 60 in 2013	28.4 years	(2012: 28.3 years)
Male retiring at age 60 in 2032	28.1 years	(2012: 28.0 years)
Female retiring at age 60 in 2032	30.4 years	(2012: 30.3 years)

Expected long-term rates of return

The long-term expected rate of return on cash is determined by reference to bank base rates at the balance sheet dates. The long-term expected return on bonds is determined by reference to corporate bond yields at the balance sheet date. The long-term expected rate of return on equities and the diversified growth fund is based on the rate of return on bonds with an allowance for out-performance. The long-term expected rate of return on annuities is the rate of discount used to calculate liabilities.

The expected long-term rates of return applicable at the start of each year are as follows:

	2013 % per annum	2012 % per annum
Equities	6.20	6.30
Bonds	4.10	4.70
Diversified Growth Fund	6.20	6.30
Other	3.63	3.30
Overall for scheme	5.33	5.60

Amounts for the current and previous four years

	2013 £000's	2012 £000's	2011 £000's	2010 £000's	2009 £000's
Fair value of scheme assets	33,650	27,486	23,426	22,184	18,100
Present value of scheme liabilities	(29,798)	(29,407)	(26,142)	(24,003)	(22,494)
Surplus in scheme	3,852	(1,921)	(2,716)	(1,819)	(4,394)
Total amount recognised in the statement of total recognised gains and losses	(2,198)	(218)	(1,534)	788	(1,136)
Experience adjustment on scheme assets	699	1,778	(1,309)	1,289	1,995
Experience adjustment on scheme liabilities	1	(375)	140	611	1,131

Annual Business Statement

Annual Business Statement for the year ended 31 December 2013

	Ratio at 31.12.13 %	Statutory Limit %
Statutory Percentages		
Calculated in accordance with the Building Societies Act 1986 as amended by the Building Societies Acts 1997 and 2005.		
Lending limit	0.28	25.00
Funding limit	3.24	50.00

The lending limit measures the proportion of business assets not in the form of loans fully secured on residential property.

The funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

Business assets are the total assets of the Group plus provisions for bad and doubtful debts, less fixed assets and liquid assets.

Loans fully secured on residential property is the amount of principal owing by borrowers and interest accrued not yet payable. This is the amount shown in the Group balance sheet plus provisions for bad and doubtful debts.

Shares and borrowings represent the total of shares, amounts owed to credit institutions and amounts owed to other customers as shown in the Group balance sheet.

The amount of shares held by individuals is shown in note 16 of the notes to the accounts.

	Ratio at 31.12.13 %	Ratio at 31.12.12 %
Other Percentages		
Gross capital as a percentage of shares and borrowings	6.87	7.15
Free capital as a percentage of shares and borrowings	6.67	6.93
Liquid assets as a percentage of shares and borrowings	22.02	24.61
Profit on ordinary activities after taxation as a percentage of mean total assets	0.39	0.29
Management expenses as a percentage of mean total assets	0.84	0.82

Gross capital represents the sum of the general reserve and the revaluation reserve as shown in the Group balance sheet.

Free capital represents the sum of the general reserve, the revaluation reserve and general loss provisions less fixed assets.

Shares and borrowings represent the total of shares, amounts owed to credit institutions and amounts owed to other customers as shown in the Group balance sheet.

Liquid assets represent the total of cash in hand, loans and advances to credit institutions and debt securities.

Mean total assets is the average of the 2012 and 2013 total assets.

Management expenses represent the aggregate of administrative expenses and depreciation.

Annual Business Statement for the year ended 31 December 2013 (continued)

Information relating to directors as at 31 December 2013

Name Date of Birth	Occupation	Date of Appointment	Other Directorships
Richard Goddard MA, FCA 9/6/57	Finance and Risk Consultant	23/11/11	RCG Business Consultancy Ltd
Keith Griffiths BSc(Econ), FCA 19/7/57	Building Society Finance Director	3/11/08	-
Peter Kerns 9/6/53	Solicitor	21/12/09	Leek United Home Loans Ltd Leek United Financial Services Ltd The Mortgage Outlet Ltd
Derek Lyons MCISI 5/12/43	Financial Consultant	14/6/02	-
Ann O'Connell BSc (Mgm), ACMA, MCT 12/4/69	Non-executive Director	19/12/12	-
Jim Washington ACIB 26/5/50	Self-employed Independent Mortgage Consultant	23/11/05	-
Kevin Wilson 20/12/58	Building Society Chief Executive	1/10/98	Leek United Home Loans Ltd Leek United Financial Services Ltd The Mortgage Outlet Ltd

Documents may be served on the above named directors c/o Bowcock and Pursaill, P.O. Box No. 1, 54 St. Edward Street, Leek, Staffordshire ST13 5DJ.

Kevin Wilson and Keith Griffiths have 12 months or less rolling service contracts. The non-executive directors do not have service contracts.

Information relating to other officers

Name	Occupation
Helen Alcock Assoc CIPD	Head of Human Resources
Richard Bebington	Accountant
Ian Boston	Internal Auditor
Stephen Boulton PGDip Mgmt, MCMI	Head of Information Technology and Savings
Ben Gronneberg	Head of Retail Sales, Insurance and Marketing
Tony Hubbard	Head of Risk and Compliance
Mike Williams	Head of Lending

Leek United
BUILDING SOCIETY

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